Firm helps customers cut costs and control inventory

TAL Apparel adds value to supply chain management

Denise Tsang in Dongguan

As soon as JC Penney's non-iron shirts and washable-wool trousers come off the sewing machines at TAL Apparel factories in Dongguan, some of the company's 6,000 workers get them ready for store racks in the United States without going through time-consuming unpacking and re-packing logistics after they leave the factory gates.

Another team of workers keeps close track on client inventories for prompt replenishment while helping them forecast demand and orders in the coming seasons.

These are part of the supply chain management services TAL initiated about 10 years ago aiming to help clients cut costs and manage inventory amid fickle demand in the US, where it supplies every one in six dress shirts sold for more than US$50.

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>
> **Roger Lee, director, TAL Apparel**

Offering what the 60-year-old garment maker called "value-added" services is a crucial strategy, which not only helps some clients lower inventory by as much as 36 per cent and grow sales by up to 19 per cent but also allows the firm to retain clients and spur sales.

"Clients were sceptical about this idea in the beginning because they have to pass their trading data and merchandising power on to us," said TAL director Roger Lee, the third generation of the Lee family that founded the group in 1947.

"After a few years, they have seen their sales improve and costs lower; now about half our clients use our supply chain management services."

TAL, which makes shirts and trousers for high-end labels such as Brooks Brothers, DKNY, Ashworth, Polo Ralph Lauren and Ted Baker, is taking the lead among tens of thousands of firms across the border as a nationwide policy pushes them to climb the value chain and technology ladder for sustainable growth.

In the design-driven world of fashion, the firm has found its niche in innovating technologies and applying them on finished garments, resulting in non-iron shirts, wrinkle-free blouses and trousers; washable wool trousers as well as water- and oil-repellent shirts.

"We started as a manufacturer, but now we are an innofacturer," said Mr Lee, who keeps the formulas of the patented technologies close to his chest.

Nevertheless, innovating technologies and moving up the value-chain comes at a cost, particularly at a time of soaring costs and ever-increasing competition.

Exporters are set to brace for punishing competition following the European Union's decision to scrap the quota regime on Chinese exports on January 1. Adding to their pain is the combined effect of softening consumer demand in the US, an appreciating yuan and mounting costs in raw materials, labour, utilities and pollution control.

JP Morgan economist Qian Wang expected the yuan exchange rate will reach seven yuan by the end of next month.

The events TAL experienced during the 1970s oil crisis threatens to repeat itself as the supply of diesel in Guangdong province dries up and soaring prices have forced the group to turn off its own diesel-fired power generators next month in favour of sourcing electricity from local power plants.

"This is why we won't put all our eggs in one place and have factories spread across the region in Taiwan, Thailand, Indonesia, Vietnam, Malaysia and Hong Kong in addition to Dongguan," Mr Lee said.

"We have an internal standard on aligning operations of different factories. For example, the labour cost at our factory in Taiwan is six times more expensive than in the mainland, but it is still very profitable."

Still, economists are warning that this will lead to the survival of the fittest in the garment industry as cost inflation and yuan appreciation continue to bite.

TAL director Roger Lee says going regional means not putting all its eggs in one basket. Photo: Warton Li